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# ECONOMICS AND MODERN PSYCHOLOGY. I

## I. INTRODUCTION

One August day three years and a half ago, so the story went, the captain of a German lake-steamer on Lake Nyassa leaned out of the cabin window and cursed excitedly at a British improvised gun-boat whose third shot had knocked a piece out of the pier along-side: "You — — fool, vot you think you do? Next time you shoot you hit de ship!" He had not learned that there was a war, and that he was being fought with. As the tale was told, the absurdity seemed all on the side of the attackers, and the victim appeared as one sane man in a world gone mad. But that is perhaps the same as one madman in a world of normals. The war has touched all of life, and nowadays thought that has no concern with the combat or with reconstruction has an air of coming from some planetary satellite inhabited by beings not quite human. And if the world is to tolerate the leisurely luxury of speculative theorizing in this time of action, and to have patience with the demands of logical analysis amid the pressure of expedients and expediencies, it may certainly demand in return of theory that it shall prove that it knows the world is at war.

War means sudden and huge mobilizations in industry which overtax the "natural" mobility of free economic agents. It

treats industry first and foremost as an instrument of national service, not of private profit, and finds the two in some respects incompatible. It instals a quasi-socialism in the direction of production, and discredits and supersedes the rule of supply and demand. It stops the production of luxuries which could be made at a profit and distributes necessities sometimes at a loss. It dethrones exchange value as the guide of economic life and enlists and educates the consumer to buy what is for the national good.

Reconstruction will present the problem of how much of all this we shall keep, and the answer will depend largely on whether the lessons learned have become a working part of our general economic philosophy. An economic philosophy which can assimilate these lessons must needs be dynamic and national. Or we may say "evolutionary and social," if the reader dislikes the mechanical implications of "dynamic" and hopes for a reconstruction on a basis broader than national boundaries. The "formal" or systematic theory which we inherit is largely conditioned by a search for levels of equilibrium rather than an unfettered study of economic processes.[1] Its study of processes hardly dares press beyond those processes that can be shown to tend toward equilibrium, or those aspects of broader processes which can be treated in terms of an equilibrium of the exchange-value sort. The processes thus studied are those of organizing human forces to achieve human ends, and their interpreter today cannot afford, any more than Mr. Hoover can, to limit his study to the organization of these forces by the one agency of price under free exchange, or to measure human ends solely by their expression through the one channel of a price-determining demand. Formal theory, however, has so far made but few and incomplete excursions beyond the realm of static and price-governed assumptions, and the need of an overhauling based on broader premises is more than ever a pressing one.

It is pressing because the kind of economic theory suited to the twentieth century and its place in the growing body of differentiated studies and activities are yet to be decided, and they will be

[1] To be distinguished from broader currents of social-economic thinking, even in the case of those economists whose names are identified with systems of formal theory.

different from what they have been in the past. The writer began some years ago a study of the extent to which economic theory was limited by its premises, and of the character and extent of readjustment necessary to carry on the work done by his father in formulating theory free of static limitations. The result has been to indicate that not merely the doctrines, but the very inquiries (except perhaps the most fundamental), the forms in which they are cast, and the quantitative and systematic character of the results demanded, are themselves dependent on those limiting assumptions from which a fulfilled economics must make itself free.[1] One thing to be thankful for is the evidence that there is more economic theory in the world than many theorists have realized, since many inquiries that seem foreign to formal theory are really just the sort of thing that must inevitably result from following theory's fundamental undertakings to the point of realism.[2]

For instance, the present series of papers starts with the attempt to square economic theory with modern psychology. This leads direct to the thesis that when theory has studied the meaning of value in terms of utility[3] its very attitude and inquiry have presupposed an equilibrium between utilities and thus have been oriented by a static point of view and static assumptions. The emancipated counterpart of this equilibrium inquiry is a study of the entire process of economic guidance, in which the utility theory

[1] Hence the feeling of many a theorist that modern criticism is not completed by any constructive offerings, and that until something positive is forthcoming to take the place of the theories which are under fire, he will not discard them. He is perhaps looking for something constructive *of the familiar general type*, and cast in the familiar mold. If so, he will never find it—for a reason.

[2] Such studies as those of Professor Hoxie and Professor W. C. Mitchell meet this requirement. Professor Mitchell's *Backward Art of Spending Money* is a perfect example of the type of study that theory must make, if it is to be more closely relevant to real life than past theory has been.

[3] Cf. Downey, *Journal of Political Economy*, XVIII, 267, "No generalization about price which is of much significance can be true." No generalization about anything in economics which is of any significance can be 100 per cent true, and Downey's statement is itself a generalization about price and hence, if true, is not of much significance. It does mean that thinking which has centered in price must find a new keynote if possible.

appears as an interpretation of one phase only of guidance by one agency only, viz., the static or the hedonistic phase of guidance by individual initiative. For this is the only phase of guidance which falls within the requirements of a theory of equilibrium. To the economic problems of a century ago this phase of guidance was supremely relevant, but for the problems of today it is the other phases of guidance that claim attention, if only because their principles are so little formulated and so completely unannexed. It needs no proof that such a study is vital to our needs today, when new and socialized forms of guidance hold the center of the stage. What may need proving is that it is but the logical continuation of the same study in which the marginal utility theory of value represents a way-station. It is the form into which the utility theory necessarily evolves in achieving verifiable meaning and a fuller measure of truth.

## II. WHY ECONOMISTS SHOULD STUDY PSYCHOLOGY

The only way in which the economist can keep his studies from duplicating the psychologist's work is by taking his psychology from those who have specialized in that field. To rely on the mere fact of choice, regardless of the kind of motives behind it, might seem to take economics out of all dependence on psychology,[1] but it does not really do so, save at the cost of becoming utterly meaningless. The economist may attempt to ignore psychology, but it is a sheer impossibility for him to ignore human nature, for his science is a science of human behavior. Any conception of human nature that he may adopt is a matter of psychology, and any conception of human behavior that he may adopt involves psychological assumptions, whether these be explicit or no. If the economist borrows his conception of man from the psychologist, his constructive work may have some chance of remaining purely economic in character. But if he does not he will not thereby avoid psychology. Rather he will force himself to make his own, and it will be bad psychology.

[1] Cf. W. C. Mitchell, "The Rôle of Money in Economic Theory," *Amer. Econ. Rev.*, Supplement, VI, 149–51. Here this tendency is discussed in connection with the money economy which it presupposes.

In putting economic hypotheses to the test of psychology much waste motion may be avoided by adopting the principle that the real meaning of a hypothesis lies in the different way things must happen if it is true, as contrasted with the way they would happen if it were false. A hypothesis capable of fitting any state of facts is one on which no predictions can be based. It is as true and means as much as the statement that white is white. Of this sort is the assumption that men seek their interests in purchases for consumption. Lacking further information, one would be utterly at a loss to devise means of putting this statement to the test, especially when told that the consumer's purchase is itself the evidence from which to infer what his interest is, and that men's interests are continually changing. For "interests" one may read "maximum pleasure" or any other form of words, and the statement is still fruitlessly non-committal.[1] The present argument pays attention only to statements that mean something definite in terms of human behavior.

Some phases of the study of human nature there may be which are of no direct use to the economist. For our present purpose we need not take up the detailed study of particular instincts and dispositions, nor the greater part of social psychology, being concerned first and foremost with the general theory of individual desires. Even the study of the social origin of wants does not seem to be universally recognized as belonging to the economists' study of value. "Quite true, but what of it?" may be the reaction. "We begin by taking wants as we find them, and our doctrines are drawn up on that basis: hence one want is as good as another in our eyes. Indeed it is only this impartial attitude that makes economics possible as distinct from ethics. Our doctrines trace prices back to their basis in finished wants, so to speak, but no farther, and hence they cannot be disturbed by new studies of the origins of desire, interesting as these may be."

This attitude is quite natural, but quite misleading. To put it briefly, the suggestions that mold men's wants and demand

[1] Cf. Downey, *Journal of Political Economy*, XVIII, 253, 259. He claims that to expurgate marginal utility of psychological error robs it of its whole content. Cf. also Carlile, "The Language of Economics," *Journal of Political Economy*, XVII, 434–47. He holds the language meaningless.

schedules may be a direct part of the business of earning a living, or they may be an incidental result of some economic process of production, or of consumption as conditioned by production, or they may arise out of those spontaneous contacts of man with man which would go on just the same under any economic system, at least so far as we can tell. Only in this last case, if at all, is the economist justified in ignoring the origin of wants to the same extent and for the same reason that he ignores "free goods."

### III. GENERAL SIGNIFICANCE OF DEVELOPMENTS IN PSYCHOLOGY

When Marshall wrote his *Principles of Economics* the age seemed an age of self-reliant foresight beyond other ages,[1] and this is the force around which nineteenth-century economics centers. The twentieth century is an age which, beyond other ages, is aware how much man is molded by his environment, and is deliberately undertaking to control this molding process. This fact must be a dominant note in constructive contributions to theory in the immediate future, if the proper balance of emphasis is to be restored.

So far as terminology goes, little readjustment seems to be made necessary in economic theory by the developments of psychology since the days of Jevons and Menger or even of Bentham. The "pain" of the older systems is what the modern psychologists call "unpleasantness," since pain in the newer psychology is a mere localized sensation, co-ordinate with heat and cold and not always unpleasant in its feeling-tone.[2] However, such terms as "want," "satisfaction," and "gratification" can still be used, although "balked dispositions" and other similar terms involve a shift of emphasis.

Perhaps the chief effect of speaking in terms of balked dispositions rather than in terms of unsatisfied wants is to remind us that the human values and costs of industry take effect in a healthy or an unhealthy human organism, not merely in pleasant

[1] Marshall, *Principles of Economics* (5th ed.), Book I, chap. i, sec. 4.

[2] Cf. Herrick, *Introduction to Neurology*, pp. 256-57. Apparently there is some lack of unanimity on this point of terminology.

or unpleasant states of consciousness. The growth of scientific knowledge of mental and physical health and disease is working a revolution in this matter, undermining the idea that each individual is the best judge of his own desires. For ill health is not only the greatest source of defeated desires, but also one about which the doctor knows more than the patient, and the public health officer, by virtue of statistics, may know more than either. Thus the social costs of industry in disease and accident may be recorded and studied quite objectively in a way far more useful as a guide to public action than is the a priori doctrine of equality between marginal disutility and marginal reward.

In psychology proper the first importance of the newer knowledge seems to lie not so much in new ideas of welfare as in changed conceptions of the way wants are aroused, their relation to human actions, and the way they behave from moment to moment and from day to day. In these respects psychology does seem to call for some real changes of doctrine in economics, both as to marginal utility and as to the nature of production. In a word, it offers a dynamic interpretation of consciousness in place of the static conception which plays so large a part in theoretical economics. The interpretation is dynamic in two closely allied senses, one economic and the other psychological. It is dynamic in the sense that impressions which enter the mind from outside are motives urging to action of one sort or another and so have a dynamic force from the psychologist's point of view, thus constituting an explanation of those changes in desires which are dynamic facts in the economist's classification.

We used to think that we sought things because they gave us pleasure; now we are told that things give us pleasure because we seek them. We built economics on the idea of rational choosing, only to be told that rational choosing is but a small and very imperfectly developed part of our mental life. We thought of the self as a sovereign will, in some sense independent of the universe. Men had their wants, and the universe granted or denied their gratification. Production consisted in turning out goods and services to suit these pre-existing wants. Now, however, we find a self which is but a series of attitudes toward the universe;

a set of tendencies to react and to seek, which are themselves the joint product of certain underlying tendencies, developed and given their shape and direction by the universe outside. Our wants (tendencies to action with a feeling-value attached) are molded by our environment just as surely as are the means of satisfaction.

Indeed, natural selection gives color to the statement that the means of fulfilment existing in the environment have molded the desires of the race by determining which desires equip men for survival. With the qualification that a desire may fulfil its racial function without being literally and fully gratified, it might seem that supply creates demand in a biological sense, which is more fundamental than that in which Austrian theory puts demand as the cause of supply. Those survive on the earth whose impulses equip them to utilize under terrestrial conditions the materials the earth has to offer, and others perish, regardless of their possible adaptability to some other planet offering a different set of materials and conditions. But be that as it may, the fact remains that what every man brings into the world of markets and trading is not wants, in the sense of the economist who says: "We take human wants for granted," but merely the raw material out of which wants are fashioned. The primitive instincts appear to be few in number, general in character, and attached to no one particular object. Economic wants for particular objects are manufactured out of this simple and elemental raw material just as truly as rubber heels, tennis balls, fountain pens, and automobile tires are manufactured out of the same crude rubber. The wheels of industry grind out both kinds of products. In a single business establishment one department furnishes the desires which the other departments are to satisfy.

## IV. THE THEORY OF PLEASURE

First, why do things please us? In answer we are told that "whatever furthers the conscious activity at the moment in progress will be felt as agreeable, whatever impedes such activity will be felt as disagreeable."[1] And again, "agreeable feeling is the accom-

[1] Angell, *Psychology*, p. 264; cf. also Herrick, *op. cit.*, pp. 257-58.

paniment of such ideas as further our momentary interests; disagreeableness, on the other hand, is the mark of that which obstructs or thwarts our interests."[1]

But neither furnishes the ultimate reason why those interests are what they are. When the psychologist ventures into this field, he speaks in terms of the reaction of the organism to stimuli which come, directly or indirectly, from the world outside and in terms of natural selection of the most successful reactive tendencies. Selection must, apparently, have favored those in whom successful activities and certain valuable adaptive reactions carry with them the experience we have come to know as pleasure. This selection is presumably an extension of the more fundamental selection of those underlying reactive tendencies which have survival value. Our ultimate motives, however, are many and concrete, and not one abstract quality, whether pleasure or anything else. They are incommensurable.[2]

The problem of welfare nowadays appears largely as the problem of what to do with misplaced instincts. Natural selection is an extremely wasteful process. A trait survives because it fitted a past environment, and persists in inappropriate situations in which it is useless or worse. It probably never fitted every situation even in the environment to which it was best suited, and may conceivably have cost the lives of nearly as many individuals in situations where its characteristic reaction was harmful, as those whose lives it saved in situations where its characteristic reaction was useful. Pugnacity is a particularly blundering trait, but many others could be mentioned.

Now that man has developed powers of intellect capable of discriminating between the requirements of different crises more flexibly than animals can, he is confronted with the need of finding

[1] *Ibid.*, p. 269. These quotations refer to matter reaching us through the higher mental channels such as imagination, memory, and reasoning. Mere sensations are treated differently. The word "interest" is used, of course, in the psychological, not in the economic, sense.

[2] They are sometimes spoken of as commensurable in the sense of being ranked in an order of preference. If these scales of values had stability there would be no quarrel with this usage, save that the establishing of the scale is not done by a process of measurement.

harmless outlets for his left-over impulses. It may be found that some may be simply repressed without injury, but not all, and it needs more knowledge than we have at present to tell us which ones may be so treated. Even in their proper surroundings, though we may be reasonably sure that our traits have survival-value, what guaranty is there that they go beyond this minimum and further the development of the higher qualities which can alone make sure that the life that survives shall be worth living? Unless indeed a sense of the worthwhileness of life be itself the last supreme survival value in the make-up of the human personality.[1]

To sum up: the quest of welfare evidently involves far more difficulties than can ever be surmounted by the mere calculating faculty of the individual. In proportion as scientific research progresses, minimum standards of welfare will become more and more matters of social knowledge and less and less matters of individual taste—but only minimum standards relating to those necessities which are generally accepted as such. The calculating faculty which Bentham seemed to idealize is quite incompetent to give us any really progressive standards going beyond such a minimum.

Calculation may tell a man just what it is he must sacrifice if he does a certain thing, but it cannot tell him whether he wants the thing badly enough to accept the sacrifice. That is something he learns directly, and often he learns only when the choice is actually forced on him and he surprises himself by acting in a way he himself would never have expected. Indeed, it would seem that the calculating faculty of man has the same function and the same limitations in private as in collective studies, in household management as in social science. It can show us what we are getting, but cannot tell us whether we want it, or whether we want it enough to pay the price. Calculation is necessary, but not final. In fact the calculating man can hardly come to his own completely save in some machine-made utopia where we might expect the capacity for pleasure to become atrophied as being no longer needed to guide human conduct, its place being

[1] I leave it for those who are more competent in these matters to discuss the possible effect on this element in natural selection in case birth-control comes to be more evenly practiced by the different strata of society.

taken by a grotesquely colorless calculation of health-values or survival-values. For then the sole supreme end would furnish the necessary common measure for calculation.

### V. DESIRE AS A REACTION TO STIMULUS

Of the many cruel shocks which the study of psychology has in store for the self-satisfaction of the naïve and innocent beginner, perhaps the most disconcerting comes when he is forced to conceive of his sovereign personality as reacting to the stimuli furnished by the outside universe rather than as generating its own stimuli and acting independently upon the universe from an inner self possessed to some extent of a quality called "originality." The youth who has been fondly imagining that he was somebody may well feel as if the somebody he thought he was had been ruthlessly annihilated at a blow. He can make nothing out of the world that the world does not first make out of him; he cannot even desire of the world save as it has taught him to desire. He is limited by the range of stimuli that have come within his experience. He is at the mercy of whatever system he happens to be born into for creating, transmitting, and directing stimuli. The slum tenement or the hill farm, the school, the church, the newspaper, the trade journal, the advertisement, the arrangement of the street one walks on, the laboratory, and the social contact of the saloon—everything, in fact, that discovers real or fancied truths, every act that may furnish an example, and every conceivable method of communication—all are parts of this system which determines men by determining the stimuli to which they are exposed.

Let us suppose for the moment that man is, within the range so set for him, a perfect economic being. He will buy goods in proportion to their marginal importance to him, will he not? Yes and no. According to the importance they are capable of having for him under the existing system, yes. In other words, he manages his income as economically as his environment equips and enables him to manage it. But what answer is this to one who is asking whether the present industrial environment tends to promote a more economical management of men's incomes,

in general, than any other possible environment would promote? A marginal utility management of income may be a very efficient or a very inefficient one, according as the conditioning environment is favorable or unfavorable in a million and one particulars. The typical environment of today, developed under the system of competitive industry and commerce, is earmarked with many grave shortcomings and is capable of improvement in many directions.

In trying to pass judgment, then, on the competitive system as a whole or on any one nook or corner of it, what profits it to demonstrate that our productive powers are organized into a system of maximum efficiency, if price be taken as the measure of efficiency, and that prices are actually in proportion to the marginal importance of the various products to the consumer, this marginal importance being in turn determined for good or ill by the environment which the competitive system itself plays so large a part in molding? This appears strangely lacking in conclusiveness.

In a word, from the fact that the human mind is limited by the range of stimuli presented for it to react upon, we must conclude that "marginal utility" means nothing absolute and can furnish no ultimate measure of social efficiency with which to judge different industrial systems. Its meaning is relative: relative to the existing system of stimuli, some of which are largely independent of the industrial system, but some of which are an integral part of it.

## VI. THE DYNAMIC NATURE OF CONSCIOUSNESS[1]

We used to think that we gave attention to many things, but desired comparatively few and sought these few alone. Now we are told that anything the mind attends to it also seeks. Every idea is in its nature dynamic—an impulse to its own realization, which, if let alone, will act as a motive force until some other idea takes its place. To make a man desire a thing, then, in the sense of seeking it, it is not necessary to convince him that it is good for him or to persuade him that it will give him pleasure. It may be necessary only to keep his attention focused on the

[1] It has already been noted that consciousness is shown to be dynamic in two allied senses, one economic and the other psychological. See p. 7 above.

idea of getting it.[1] If the idea be presented strongly and persistently, it will take a man strong-minded to the point of eccentricity to summon the positive effort required to resist. Thus the stream of consciousness is guided by outside forces.

"Modern psychology knows nothing of a permanent mind, or of faculties or activities or manifestations of such a mind."[2] And pleasure is not absolute but relative to the "conscious activity *at the moment* in progress,"[3] and psychologists speak of "momentary interests" and of impulsive or "ideo-motor" action as occupying a large part of life. Even in making certain types of deliberative decisions "the whole scale of values of our motives and impulses undergoes a change" as we suddenly pass from one mood to another.[4] One type of advertising and salesmanship relies wholly on ideo-motor responses in the victim, insinuating or hammering into his consciousness the idea which, once there, determines his choice and action often without any critical weighing in the light of all the possibilities and all the interests of a rationally unified self.

Perhaps one reason for our slowness to recognize the full consequences of the difference between advertising and other types of production lies in the fact that, while salesmanship is as old as exchange, and the deliberate production of information as old as markets, they have but recently differentiated themselves to the point at which independent entrepreneurs specialize their large establishments to some one of these types of service. Just as the problem of interest is not raised where the craftsman works with his own simple tools, and only comes into view with the rise of a class that receives interest without labor, so salesmanship was not differentiated when the owner of the shop ran it himself and did his own enticing of customers. But now that it has become the source of a class income, and now that we have the beginnings of an understanding of the laws by which it works upon its human raw material, it has become an economic category and is rapidly

[1] See especially Wm. James, *Psychology* (1900), chaps. xxiii and xxvi. While the more rigorously experimental psychologists of today have little respect for the methods of James, they have not attacked these general principles (or theories) nor have they as yet carried their own work into this region of inquiry.

[2] Tichener, *Psychology*, p. 267.

[3] Angell, *op. cit.*, p. 264. The italics are my own.

[4] James, *op. cit.*, p. 432.

attaining the dignity of a problem. This is equally true of business experimentation, research, and information. How much net addition does advertising make to man's power over nature, to his ability to fulfil the motives that animate him, or to the supply of the material means of fulfilment? As a whole the use of ideo-motor stimuli is no doubt highly productive, but what of the contribution made by a marginal unit as compared with a marginal unit of power spent in raising crops or carrying them to market?

In the light of the foregoing argument it seems strange that one can read orthodox texts in economics and find utility and production treated in a way which either ignores entirely the implications of the psychology of advertising or is absolutely inconsistent with it. This is the case wherever production is treated as nothing more than adapting matter to the satisfaction of existing wants, and wherever it is laid down that the prices a man is willing to offer for different things are in proportion to the marginal satisfaction he gets from their consumption, or even where it is assumed that the consumer's demand is determined by the goods offered and the price set, so that given the nature of the goods themselves it varies only with the price.[1] The principle of

[1] The following passages may be cited in illustration:

Seligman, *Principles of Economics* (1910), p. 275; also chap. xii.

Seager, *Principles of Economics* (1913), pp. 89–91, 97–100, 122–23. While Professor Seager treats of purchasers' mistakes, he regards them as errors in calculating prospective utilities. If the views embodied in the present study are correct, it is something very different from calculation which decides these choices.

Ely, *Outlines of Economics* (1909), pp. 16, 94–95, 121. The author admits other motives than mere calculation of prospective satisfaction, and mentions advertising in the same paragraph in which he states that "every person tends to keep the marginal utilities of the different kinds of commodities he consumes equal." His definition of production, however, leaves no room for salesmanship, though his discussion of the variability of wants invites a broader treatment of production.

Marshall, *Principles of Economics* (1907), pp. 63-67, also Book III, chaps. iii and iv. Professor Marshall considers the purchaser as coming to market with a demand schedule predetermined; one in which price is the only variable which can affect the outcome. This extremely reputable assumption cannot be squared with the facts of salesmanship save in a way which makes the conventional assumption as to competition untenable. Marshall discusses the education of producers by consumers, but not the reverse process.

Irving Fisher, *Elementary Principles of Economics* (1911). This work may be cited negatively. While not necessarily inconsistent with the principles here advocated, it makes no mention of them.

Taussig, *Principles of Economics* (1915), chap. ii.

marginal utility and even the principle of diminishing utility in the strictest sense are inconsistent with this dynamic principle in human nature. The principle of diminishing utility holds true only apart from changes in the consumer himself; it is, in other words, a static principle. It does not go so far as to deny that the consumer may change, but it takes no active notice of the fact. This is always legitimate as a temporary expedient, and it may be legitimate as a permanent attitude, but only if the things ignored are things that do not concern the economist.

The law of demand tells us that an increase in prices tends to diminish sales. It is commonly based on the law of diminishing utility and hence involves the same static abstraction, excluding changes in the consumer himself. If one were to attempt to verify this law by observation he would find the results sufficiently irregular to indicate the presence of some independent variables besides the ones that are accounted for in the formula.[1] One use commonly made of the law of demand price is to combine it with the law (or laws) of supply price into a formula under which all the forces governing value may be summed up. This virtually says that the demand schedule is an ultimate fact for the seller, as the supply schedule is for the purchaser; or that the buyer has one and the same demand schedule throughout his relations with the seller. Otherwise the forces of demand and supply could never be shown to lead to any determinate result, even temporarily, or to any level of equilibrium. The demand with which the buyer goes to market must be the same as that which settles the final price. Given the commodity that is for sale, the volume of sales is supposed to be uniquely determined by the price, and to vary inversely with the price. This independent demand schedule is akin to the static assumptions already mentioned. It assumes absence of all disturbance other than the one factor included in the formula. Are the disturbing factors things which the economist need not consider? If they are, the business man is not so care-free about them. A recent book on production from the business man's point of view devotes one major division of nine chapters, out of a total of nineteen in the entire volume, to the subject of "The Creation of

[1] Cf. Fetter, *Source Book in Economics*, pp. 58–60.

Demand."[1] The producer does not take demand as he finds it, nor leave it in a "static state."

It may be objected that the hypothesis of a demand curve is not vitiated even though purchases are swayed by suggestion, because when that happens a new utility is introduced so that the resulting commodity is just as different, economically speaking, as an upholstered chair is different from a plain one. This is, of course, a perfectly permissible way of looking at the case, but if it is to be used consistently it carries with it the recognition that virtually all of the competition that counts is competition between different commodities, or what is more often called "substitution." For no commodities, no matter how nearly identical in themselves, are brought to the consumer's attention in exactly the same way. As stimuli to the act of purchase they are all different. Possibly this shift from "competition" to "substitution" is the most desirable outcome, since there is so wide a field in which a difference between the goods offered by the different makers is one of the essential features of the competitive struggle that this is really the typical case rather than the exception.

But, on the other hand, why shrink from the idea of identical goods selling at different prices in the same market? Now that markets are world-wide, differences in accessibility make possible differences in the prices charged different purchasers of identical goods, and we are faced with the alternative of giving up one or the other of two much-used assumptions. If a market is a place where there is but one price then there is but one conclusion: most producers sell their goods in many different markets, not in one. But the law of competitive price regularly assumes, so calmly that one hardly realizes it as an assumption, that each producer sells all his goods in one market, the same in which his competitors sell them. It goes farther and assumes, explicitly or tacitly, that some, at least, of the producers are of negligibly small size compared with the total output disposed of in this market.[2]

[1] A. W. Shaw, *An Approach to Business Problems.*

[2] Cf. Marshall, *Principles of Economics* (5th ed.), Mathematical Appendix, p. 850; cf. also H. L. Moore, "Paradoxes of Competition," *Quarterly Journal of Economics*, XX, 214–24. Professor Moore works havoc with received theories on the assumption of the existence of two large competitors.

On the whole the fact of nation-wide and world-wide "markets" would seem to be the fact of general acceptance, and the part of wisdom would seem to be to adjust the idea of the nature of a market to this use of terms. This has been done, of course, to some extent, but more completely in the preliminary descriptions of markets than in the later theory of prices in which the conception of a market should be seen at work.

The theory of competitive price for identical goods in a one-price market, having served nobly as a point of departure, needs to be fulfilled, if possible, by the development of a theory which takes as its normal case the rivalry of slightly different commodities in a market where prices, even for the same commodity, may differ on account of distance, ignorance, or suggestion. Indeed it seems capable of proof that the doctrine of the tendency of competitive price to the level of cost, based as it is ostensibly on the assumption of the one-price market, really presupposes as a necessary condition that prices can and do remain different for a substantial period of time. For the first competitor to start a cut in prices can gain no advantage thereby, save in the time that elapses after the customers learn of his cutting of prices and before they learn that his competitors have followed suit. If the competitors always follow suit at once it is difficult to see how anyone gains by price-cutting.

Let us have, then, our theory of price differences within the market, including those due to ignorance or information, suggestion, salesmanship, and advertising. The result will be a clear recognition of these as essential phases of economic production at the same time that it forces to light the fact that they are radically different from the types of production which the traditional forms of theory are adapted to handle.

What of marginal utility? Its exponents assume, in the first place, as even their opponents[1] do, that choices behave in the fashion that the law of diminishing utility would lead one to expect. Further than this they assume that the motive to buy

[1] Fetter, *op cit.*, and B. M. Anderson, Jr., *Social Value*, pp. 108–9. Fetter, after renouncing marginal utility, retains this minimum, and Anderson, though an unsparing critic of utility theories of value, states that "power in motivation," though different from utility, behaves in the same diminishing fashion.

reflects the motive to consume, or the fulfilment that comes with consumption, thus implying that the customer knows what he is getting and what he is giving up—a requirement which calls for information, intelligence, and foresight. Man acts in anticipation of consequences. And in particular they assume that a buyer is consistent enough so that his different purchases record the same scale of choices. Or they may regard this consistency as an ideal of prudent or efficient expenditure, to be approximated if it is not perfectly attained[1]—an attitude which at once rouses the curiosity of any scientist as to the nature and behavior of the disturbing elements. In all these cases the least obvious, but not least fundamental, element is a something static about the behavior of the purchaser.

Böhm-Bawerk has stated quite explicitly that "every reasonable man who acts economically" is strongly induced "to maintain a *fixed* order in the satisfaction of his wants."[2] Thus Böhm, though he does not deal with quantities of pleasure and pain as Jevons does, achieves a doctrine of marginal utility which is essentially the same, through his assumption of stability in men's choices. Jevons, on the other hand, is more obscure in bridging—or failing to bridge—the gap between the statement that "it is self-evident that the want which an individual feels most acutely *at the moment* will be that upon which he will expend the next increment of his income," and the conclusion which "obviously follows," that "in *expending a person's income to the greatest advantage*, the algebraic sum of the quantities of commodity received or parted with, each multiplied by its final degree of utility, will be zero." And at the top of the same page we find: "Thus the general result of the facility of exchange prevailing in a civilized country is that *a person procures such quantities of commodities that the final degrees of utility of any pair of commodities are inversely as the ratios of exchange of the commodities.*"[3] It is obvious to the careful reader that these two propositions do not follow directly from the "self-

[1] Wicksteed, *The Common Sense of Political Economy*, pp. 19–20.

[2] Böhm-Bawerk, *Positive Theory of Capital*, p. 147. The italics are my own.

[3] Jevons, *Theory of Political Economy*, p. 151. The italics have been somewhat altered from the original.

evident" assumption on which they are based. The momentary decision organizes no budgets. It tells us nothing about the relation of a man's purchases to one another, or the relation of his expenditures in general to his wants in general. It tells absolutely nothing about the apportioning of one's purchasing power among the many yawning openings. It gives us no marginal ten cents out of a day's or a week's outlays. In fact, it would seem to be little more than an elaborate way of saying that one buys what he buys, and is more akin to Mill's treatment of demand than to that of many a more recent writer.

Now the point of most essential interest in the study of man and wealth, and the point to which Jevons at once turns, is not a disconnected series of decisions, but the relation between them—their place in the management of income and outgo over a period of time. And yet if the idea of a scale of choices is enlarged to cover a period of time, it clearly implies that a man's scale of choices is the same when he is buying shoes and when he is buying theater-tickets. It asserts that the purchase of shoes and the purchase of theater-tickets can both be explained by reference to the same scale of choices, else he might buy theater-tickets and next day wish he had the money for shoes. Changes in desires may occur, but they must be foreseen and intelligently provided for, which means that they must be organized into one comprehensive scale of choices.

It may seem that in claiming stability as the sufficient quality of the economic man the ethical implications of the utility theory are being overlooked. However, the only ethical standard in question is of that professedly inferior grade concerned only with the individual's fairly obvious duty to himself and sometimes called "prudence." It is concerned only that stronger motives shall not be sacrificed to weaker, and even so it refers only to short periods. Now if at any given instant the prevailing motive is, *ipso facto*, the stronger (regardless of its moral character when judged by more exacting standards), it only remains to get a scale of choices that will last long enough to organize a budget[1] and the gratifications

[1] Downey, *Journal of Political Economy*, XVIII, 260, mentions the importance of stability over an interval of time in organizing a budget.

it includes will be, *ipso facto*, the strongest. One is tempted to append a "Q.E.D." In other words, the marginal utility doctrine is a bit of static theory, and is based on the premise of a static man who bears much the same relation to real men that the "static state" he lives in bears to the world about us.

How could such a proposition be verified? If people make purchases and then regret them, that is evidence that their scale of choices has changed.[1] If advertising pays, it can be only by altering or directing these scales of choices in some respect or other. In some cases there is no doubt what a man wants, and also no doubt that he cannot tell whether or not he is getting it, and that many do not succeed. All these are forms of tangible evidence, and they need only be mentioned to carry their case. If the consumer's scale of choices behaved in this rigid fashion, the guidance of consumption would be wholly in his own hands. In order to satisfy the conditions of this theory, demand should be independent of anything producers do, except the making of goods and the fixing of prices, and production for profit should consist of these activities and nothing else.

If wants are stable they cannot be swayed by the seller for his own ends. This being so, there are only two ways to gain continuously through exchange. One is to raise the price of something and submit to a falling off in sales. This is monopolization. The other is to increase the supply of something adapted to gratify existing wants. This involves an increase in gratifications without any apparent offset (aside from the possible cost to the seller), and hence may be spoken of as "social production" in a sense that distinguishes it from parasitism. It appears to fulfil the maxim of Francis Bacon which Jevons quotes with such approval: "While philosophers are disputing whether virtue or pleasure be

[1] Marshall represents marginal utility as achieved if one has no cause to regret choices in looking back on a past budget (*op. cit.* [5th ed.], p. 117). He takes demand prices as prima facie measures of gratification for the economist's purpose (*ibid.*, pp. 18–20), and appears to take the demand curve, habitual or deliberate, as an ultimate fact for economic study (*ibid.*, p. 342); but his fulfilment is better than his promise, for his treatment of the concentration of trading (*ibid.*, pp. 287–88), of cognizability in goods (*ibid.*, pp. 326–28), of industrial training (*ibid.*, pp. 216–17), and of similar topics contains germs of some of the broader principles of economic guidance.

the proper aim of life, do you provide yourself with the instruments of either."[1]

If business takes the consumer's aims as it finds them and concerns itself solely with the instruments of their attainment, then production may be defined as the adapting of things to gratify existing wants, and it can still be contended that production and monopolization are the only two ways of getting a continuous income[2] in exchange. But if business is concerned with men's aims themselves, guiding general instincts into particular channels and focusing general wants into the desire for particular objects, then the study of business cannot limit its investigations to the furnishing of the means of gratification. If it does so it will be studying but one element in a joint process and will be wholly inadequate to explain either the whole process or the whole result. The guidance of wants by business enterprise may be something quite different from monopolization on the one hand and additions to humanity's supply of the means of life on the other. There is no a priori guaranty that it does not systematically stimulate certain kinds of wants at the expense of others, and there is no a priori way of telling whether the net result, good, bad, or indifferent, is in reasonably efficient proportion to the amount of human effort expended. An inefficient system of guiding wants may seriously impair the possible efficiency of our system of gratifying them. It is surely more than merely a significant coincidence that the economics which lays almost exclusive emphasis on production as an increase in the sum total of the *means* of gratification should be also the economics whose formulae of demand or utility leave no room for changes in wants save as exceptions to be passively admitted, but not actively interpreted or investigated. And if something more positive can be accomplished, the result should be important, not merely for the theory of value itself, but for the theory of the organization of social production in which exchange value is the most active and omnipresent force.

In brief, what economists have gained in "marginal utility" is in appearance a theory of equilibrium and something to gratify

[1] Jevons, *op. cit.*, p. 29.

[2] Aside, of course, from disposing of existing property, which is not a continuous source of income.

the treacherous yearning for a psychic entity which price can be said to measure. It also offers one view of the guidance of economic choices, and this aspect becomes inevitably the most important thing about it. Its picture of economic guidance takes various forms, but does not go beyond (1) men's somewhat imperfect tendency toward a prudent budget, or (2) the fact that men, whether acting on impulse or not, still act according to some demand schedule or supply schedule, in terms of which their bargains may be explained. By comparison with the older maxim that each individual can judge his own interests better than anyone else can do it for him, these latter-day formulae are evidently safer from error to just about the extent that they are noncommittal. Most cautious of all is the statement that the individual's mistakes are none of the economist's business, and that the economist must on no account assume either that there are mistakes or that there are none, but take whatever decisions he finds in the market as the ultimate evidence of human desire.

If the individual is, in fact, the best available judge, then no matter how imperfect he may be we shall save ourselves trouble by treating his judgments as final. If there are errors, they are the necessary costs of the best possible system of economic guidance, and a system that ignores them will not be far wrong in its practical conclusions. If the individual in the market is not the best judge, then an abstraction which ignores that fact is, just to that extent, a crippling abstraction, refusing a theory of economic guidance where it is needed because it would disturb the purity of the economic analysis—as if that were an end in itself! There is a third possibility, equally pertinent whether the individual is the best available judge or not. Provided the efficiency of his judgments varies with economic circumstances, then the questions arise: "How can these circumstances be made most favorable to efficiency?" and: "What circumstances are favorable to efficiency and what circumstances are unfavorable in the business world as we see it?" In this case the theory of guidance becomes an integral part of the theory of business itself.

If the individual is not the best judge of his interests, it may still be held that his mistakes have nothing to do with the industrial

system, but arise out of a wholly separate compartment of life, the domain of the student of ethics, the inner shrine of the independent sovereign personality. In such a case economics may well make peace with psychology by defining utility as "desiredness," and go its way untouched in any substantial part. But since desires are roused and directed, as we have seen, in ways that are matters of business, it would seem that ethics cannot take command of this compartment of life to the exclusion of economics any more than an economic study precludes an ethical one. As a matter of economics, the guidance of our choices is a form of valuable activity which cannot be regarded as itself guided by formed scales of choices. The stimulation of demand is a variety of economic service whose supply has hardly been adequately explained by saying that it is stimulated by a (pre-existing) demand and is governed by it as the ultimate fact in the case. The analysis must run in wholly different terms.

## VII. EFFORT OF DECISION—AN IMPORTANT COST

Decision involves effort of attention,[1] and this effort cannot be sustained beyond a few seconds at a time, nor repeated without limit[2]—a fact which suggests the using up by fatigue of a limited capacity for this kind of mental act. Cooley especially stresses the exhausting character of choice, so exhausting that it becomes the part of wisdom to choose to yield up our prerogative of choice, save in the things we hold most important,

> in other matters protecting ourselves by some sort of mechanical control—some accepted personal authority, some local custom, some professional tradition, or the like. Indeed, to know where and how to narrow the activity of the will in order to preserve its tone and vigor for its most essential functions, is a great part of knowing how to live. An incontinent exercise of choice wears people out, so that many break down and yield even essentials to discipline and authority.[3]

[1] W. James, *op. cit.*, pp. 433–34, 450. J. R. Angell, *op. cit.*, p. 369. Angell specifically mentions financial decisions as involving a sense of effort partaking of the nature of fatigue. Wundt and McDougall also treat will as depending on effort of attention.

[2] W. James, *op. cit.*, pp. 224–25.

[3] C. H. Cooley, *Human Nature and the Social Order*, pp. 33–34.

James describes something similar on a smaller scale in a certain type of choice when no clear decision comes, till we weary and "feel that even a bad decision is better than no decision at all." Then "some accidental circumstance . . . . will upset the balance in the direction of one of the alternatives . . . . although an opposite accident at the same time might have produced the opposite result."[1]

If one wished to be unfair to economists in general, he might select, for purposes of comparison with these psychological principles, a certain well-known though fictitious character whose idiosyncrasies furnish alternate joy and irritation to modern readers of economics. He is a somewhat inhuman individual who, inconsistently enough, carries the critical weighing of hedonistic values to the point of mania. So completely is he absorbed in his irrationally rational passion for impassionate calculation that he often remains a day laborer at pitifully low wages from sheer devotion to the fine art of making the most out of his scanty income and of getting the highest returns from his employers for such mediocre skill as he chooses to devote to their service. Yet he cannot fail to be aware that the actuarial talent he lavishes outside of working hours would suffice to earn him a relatively princely salary in the office of any life insurance company. So intricate are the calculations he delights in that even trained economists occasionally blunder into errors in recording them.[2]

[1] W. James, *op. cit.*, p. 431.

[2] This refers to the traits from which the actual doctrines of "economic theory" have been derived, not to the preliminary descriptions of human nature, quite unexceptionable for the most part, but sometimes quite disconnected from the theory that follows. To show that this fanatically economic man still lives, consider two instances in *Wealth and Welfare* (published in 1912), by A. C. Pigou, devoted to studying the fact-basis for progressive social-economic policies. On pp. 118–19 the author assumes that laborers err in estimating the relative gains open to them in different places, but that, having made this error, they then base their movements on a calculation sufficiently abstruse to cause Pigou himself to overlook one vital element—the cost of movement—in his own estimate of the social gain or loss resulting. Again, on p. 160, this footnote is found: "If $k$ be the fraction of importance that I attach to a pound in the hands of my heirs as compared with myself and $\phi(t)$ the probability that I shall be alive $t$ years from now, a certain pound *to me or my heirs* then attracts me now equally with a certain pound multiplied by $\{\phi(t)+k(1+\phi(t))\}$ *to me* then. This is obviously increased by anything that increases either $\phi(t)$ or $k$.

"If, through an anticipated change of fortune or temperament, one pound after $t$ years is expected to be equivalent to $(1-a)$ times one pound now, a certain $\{\phi(t)+$

His enemies consider him eccentric and quite incompetent to support the responsibilities which economists insist on thrusting upon him. They are right. He *is* eccentric. Indeed, he is not even a good hedonist, a fact which the reader may have suspected. And it needs no specialist in psychology to expose his folly. A good hedonist would stop calculating when it seemed likely to involve more trouble than it was worth, and, as he could not in the nature of the case tell just when this point has been reached, he would make no claim to exactness for his results. He would strike a balance between getting the most out of his expenditures and getting more money to spend; also between time spent in getting the best possible bargain when he had something to sell and time spent in getting more to bring to market.

In special cases, when there seems no likelihood that calculations will reveal any course that will bring more pleasure than the one immediately claiming his attention, may he not, after a brief moment spent in satisfying himself of this fact, permit himself the rare luxury of following an impulse without a single backward-looking, joy-killing thought of other things he might perhaps better be doing? And shall we consider a man a good hedonist who calculates that this weighing of alternatives robs experiences of their joy by robbing them of their spontaneity, and who therefore chooses to act on impulse? Or a man who joys in seeking the novel and the unexpected, which can hardly, in the nature of the case, be weighed beforehand? Man's vulnerability to suggestion is not wholly a loss.

Since it is rational to make "bad bargains," it would also be rational to pay someone to protect one against them, and some people find a partial remedy in this way. If one could tell just

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$k(1-\phi(t))\}$ pound of the then prevailing sort to me then attracts me equally with $(1-a)\{\phi(t)+k(1-\phi(t))\}$ pounds, of the now prevailing sort, to me then. Therefore, a certain pound to my heirs will be as persuasive to call out investment now as the above sum would be if I were certain to live forever, and always to be equally well off and the same in temperament."

The reader will note that my principal thesis rests, not on such extreme cases as this of the actuarial economic man, but on the static view of human nature embodied in marginal utility, the independent demand schedule, and current definitions of production. See pp. 14–21 above.

how much his bad bargains cost him, he could tell how much it was worth his while to pay for such help and judge its quality when he got it. But if he knew so much he would not need the help at all. Like other forms of guidance this one is not itself guided adequately by an independently determined demand. To preserve a healthy-willed citizenship at as little expense as possible such service should be furnished, under public or co-operative supervision as to quality, to just the necessary extent and by the cheapest route. Will private enterprise do this better or worse than other available agencies? The answer must be sought by other methods than those furnished by the general demand-and-supply or productivity analysis. It is certainly not to be assumed a priori that private enterprise will handle this service satisfactorily in the face of the fact that so far it has done next to nothing in this highly important field.

Mill upheld individualism on the ground that people learn by their mistakes. True, but they also degenerate, as Cooley says, through wearing out their power of decision. Self-education is not best promoted by giving the victim unlimited opportunities to make mistakes and profit by them if he can. This process would be safer in a slower moving and less crowded world than the present, but it has never been safe. The educative problem is one of adjusting the exposure to the individual's power to benefit by it, and this is one of the most delicate problems waiting to be attacked by a constructive program of social control.

## VIII. QUASI-STATIC ELEMENTS—HABIT AND ARRESTED DEVELOPMENT

But if human nature is so largely dynamic there remains one static element, namely, habit. And indeed it is only by the aid of habit that the marginal utility principle is approximated in real life,[1] for only so is it possible to have choosing which is both effortless and intelligent, embodying the results of deliberation or

[1] Since writing the foregoing, the writer finds in Professor Stuart's contribution to the joint volume *Creative Intelligence* a development of the thesis that the utilitarian economic treatment applies to routine choices and does not interpret the processes by which progress takes place. Cf. *Creative Intelligence*, by Dewey and others, pp. 312–13, footnote, and 350–51.

of experience without the accompanying cost of decision which, as we have seen, must prevent the most rational hedonist from attaining hedonistic perfection. For habit is nature's machinery for handing over to the lower brain and nerve centers the carrying on of work done first by the higher apparatus of conscious deliberation.

To be sure, it is not always the deliberate decisions that are perpetuated nor the truths one has learned by experience. It may be one's past mistakes that grip him in spite of himself, or his unconsidered impulses that are thus hardened and set. There are habit-forming drugs on the market: illegal ones such as cocaine,[1] and legal ones such as golf.

The chief value problem here involved does not concern itself, however, with the healthful or vicious character of the habits formed. That side of the matter may appear indirectly in the recognition that the fewer vicious habits a man has the more he can produce, and that the employer therefore has an interest of a more or less diluted sort in doing things that may produce healthful habits of life among his employees. This seems to be becoming more important as a form of social production, but its relation to the value-problem is a distant one.

More direct is the effect which habit has in binding customers to a known brand of article, regardless of slight changes in the relative price and quality of this and competing goods. Thus the good-will of a business is partly a matter of habit on the part of the customers. This is an obstacle to the attainment of the marginal utility ideal; it slows down the movements of customers in response to the competitive bidding of producers and has a definite tendency to make price-cutting over limited periods less profitable than it would otherwise be.

The importance of habit and custom is best shown in their failures, when we see how much we have lost. Their value depends on a stable environment and vanishes if the environment refuses to hold still. The positive gain is the progress made through concentrating one's whole energy on successive problems,

[1] In such a case it is obvious that the habit is not a static thing, but a progressive disease.

but this may turn to loss if the new problems come too fast to be handled one at a time, and one cannot hold the ground gained. A contract does not usually displace custom so much as it stipulates a few items in a relationship otherwise governed by custom and law. If courts never enforced anything not expressly stipulated, business could hardly be carried on at all.[1] When a radical technical change destroys the value of customary shop rules and practices or creates new trade dangers, the labor contract becomes fearsomely complex, and labor union and employers' association alike rely on highly expert specialists to protect their interests. When war compels us to eat unaccustomed foods, we must be not merely persuaded to do so, but educated at great expense, and it is urged that France, absorbed as she is in a war that taxes national energy to the last ounce, cannot make the additional effort or bear the additional cost of learning to use cornmeal in place of wheat. Such is the helplessness of the individual "economic man" when habit and custom fail him even in such an everyday household matter as diet.

When many problems demand concentrated attention at once—and this is always happening in modern industrial society—reliance on the expert specialist is the only resource. And the development of machinery for insuring that the full benefit accrues to the rank and file is yet in its infancy. Only in an extremely slow-moving society can habit and custom take care of enough of life to deceive people into thinking that conscious choice cares for the whole, and to make the deception harmless.

Almost equally needful of recognition is the case of the morons and those above and below them in the gradations of feeble-mindedness. Static their minds may be in one sense, but wholly unstable and highly suggestible and uncalculating. Their presence in the community means, first, that various policies of exploitation, socially unproductive salesmanship, and quasi-fraud can gain just that much more profit and find just that many more victims before reaching the marginal one whose tough-mindedness is sufficient to enable him to resist. If there are enough of these subnormals, a parasitic policy may pay, even though the average

[1] Cf. L. D. Clark, *The Law of the Employment of Labor*, especially pp. 50–212.

or typical citizen is intelligent enough to be safe from its false attractions.

Secondly, the mistakes of these individuals are not compensated by any resulting growth in strength of mind or character, and so they lose the positive value they possess in the case of the normal man. The net result of both these considerations is to furnish a strong argument against allowing these classes to remain unprotected and bearing the brunt of the economic struggle in the world of free exchange; and also to impose serious qualifications on theories based on the normal man, so long as these deficients remain in the competitive field. For the rest of us the prevailing social ideal is dynamic, but for them no such ideal has meaning. The rest of us must make mistakes and suffer for them, because protecting us would protect us against growth and the self-dependence which our type of citizenship demands. For these unfortunates their own present happiness and the safety of others are the prime considerations.

## IX. CONCLUSION

If the foregoing analysis has justified itself it has been because it attempted something more than mere criticism or the exhibiting of exceptions to orthodox doctrines. In a purely negative direction little has been proved here that is not to be found in the works of leading writers. The consistent economic man has long been known to be a sheer abstraction, though not everyone has realized the importance of the elements left out. We are familiar with the idea of "irrational wealth."[1] Fetter, in his latest book, not merely mentions the fact of impulsive action, but abandons the doctrine of marginal utility.[2]

Again, most of the negative contentions here put forward are most admirably expressed by Wicksteed along with his more positive contributions. The fact that a personal budget governed by relative marginal utilities is an unattained economic ideal,[3] that

[1] J. B. Clark, *Philosophy of Wealth*, pp. 205–6.

[2] Fetter, *op. cit.* (1915), Preface and pp. 13, 19, 37. But cf. also pp. 27–29, 33, where traces of hedonism appear. Professor Whitaker, in reviewing this volume, approves of it on the ground that it has *not* departed from the essentials of Austrian theory. *Political Science Quarterly*, XXXI, 433–41, especially 438–39.

[3] Wicksteed, *op. cit.*, pp. 19–20.

there is a point at which it becomes poor economy to lavish attention on economies of this sort because the gains are not worth the outlay,[1] that scales of choices are not even self-consistent, but rather so illogically constructed that it is quite possible to prefer A to B, B to C, and C to A,[2] that the alternative sacrificed in making a purchase is but vaguely sensed[3]—all these and others are included in his most comprehensive treatment.

The question is: How can they be made positive use of? How assimilated and raised from the limbo of negative qualifications upon equilibrium theories of value into the dignity of an integral and working part of a broader theory? When economic disagreements have gone as deep as they can go, the decisive consideration is always the furthering of progress. Even habit is useful chiefly in so far as it contributes to growth. And progress is not to be had by eradicating error and returning man to a sort of hedonistic Garden of Eden, but by using trial and error as its chief tool.[4] Progress implies imperfection, and it also implies more or less imperfect guidance of every man by himself or by others as a costly and valuable form of human effort. This cannot be accomplished through the static conception of independent demand schedules or the static "ideal" of marginal utility. Everything in the foregoing study has pointed to this conclusion. A subsequent paper will attempt to outline a method of studying the theory of economic guidance, and to indicate some tentative conclusions. In the nature of the case the result cannot be a deductive system, determining levels of equilibrium with quantitative exactness.

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[1] Wicksteed, *op. cit.*, p. 21. [2] *Ibid.*, p. 32. [3] *Ibid.*, p. 35.

[4] H. W. Stuart (*Creative Intelligence*, pp. 304–7) makes the point that departures from the utilitarian "ideal" are not so much evidences of ignorance as means of growth in knowledge through the process of "constructive comparison."